

2 February 1983

Introductory Points for NBEIC

1. Will give an overview of international economic trends and the main uncertainties and then ask Maurice Ernst, NIO/E, to amplify remarks and then have discussion.
2. The main cause of the world economic slump is the wringing out of inflation in world economy. This process is pretty world-complete.
3. The main influences in recovery:
 - a. Most important is US economic recovery because it is key to world economic recovery.
 - i. Here the main uncertainty is how enduring a recovery we will have.
 - b. Europe will follow us with a lag.
 - i. Investment has declined in Europe as in US
 - ii. Share of income taken by governments -- largely for welfare transfers -- has risen sharply.
 - iii. Most European governments are trying to increase share of profits/investments, but this takes time; low wage settlements are encouraging.
 - c. Little if any growth in LDCs for at least next year; these prospects depend on OECD recovery.
 - i. Debt problems (M. Ernst will say more on this)
 - ii. Lower imports from OECD countries
 - iii. Lower earnings of oil exporters.
 - d. Importance of oil price decline
 - i. Highly favorable to world growth
 - ii. But trouble spots, especially Mexico

4. The main uncertainties:
 - a. US Fed policy and US fiscal policy; also policies of other major countries; FRG, Japan especially.
 - b. Debt restructuring of key countries
 - c. Oil Price
 - d. Political developments:
 - i. No earth-shaking ones seem likely, but should note some developments that could have an impact:
 - (a) German election; later on in 83 or 84, UK election.
 - (b) Always potential for upheaval in Middle East; e.g., Iran-Iraq war, Israel-Syria.
 - (c) Other possibilities including Soviet moves in Third World.
5. Now here's Maurice.